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OREGON BUSINESS - MAY

	Compared with April 1943	Compared with May 1942
Bank Debits	− 10.8	+ 32.7
Retail Sales	− 7.2	+ 27.4
Building Permits	− 76.2	− 19.3
Lumber Production (weekly average)1/	+ 2.5	− 6.7
Ordinary Life Insurance Sales	+ 4.6	+ 6.0
Gasoline Sales	+ 11.1	− 10.9
Business Failures	− 24.0	− 77.2

1/ Western Oregon and Western Washington

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NOTES ON POWER DEVELOPMENT AND THE FUTURE OF THE PACIFIC NORTHWEST

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In the short space of five years the power resources of the Pacific Northwest have enjoyed a phenomenal expansion. From a total regional electric power capacity of roughly 1,500,000 kilowatts in 1938, the installation of generators at Bonneville and Grand Coulee dams, plus certain relatively minor improvements of older power installations, has raised the regional total to over 2,800,000 kilowatts. All of this capacity is being utilized, and new demands are continually rising apace with, and frequently in advance of, available capacity. Together with the emergence of this resource, its utilization has brought many new economic developments in the region. New metal industries and new chemical plants have located

in the region served by the power system of the Federal government and its cooperating interconnecting systems. New and abundant quantities of power are being made available to the home and on the farm. These are indications of a transformation of the regional economy, the long-term pattern of which, however, is still subject to some question, particularly at this rudimentary stage of development.

The Federal power system is performing several functions, the phases of which are not always generally recognized. Of course, Congressional mandates, expressed in the Bonneville Act of 1937 and subsequent amendments and executive orders, stress the disposal of the byproduct power to be generated at Bonneville and Grand Coulee dams. These mandates particularly draw attention to the desirability of disposing of this power to public agencies on as wide and wise a basis as possible so as to "prevent the monopolization thereof by any limited groups." The desirability of this latter directive becomes obvious when viewed as a necessary safeguard to the Federal government's capital investment in the over-all development of the region and its resources. In money, this capital risk now totals some $300,000,000 for facilities at Grand Coulee and Bonneville and for interconnecting power transmission systems.

The magnitude of the multipurpose development of the Columbia River transcends the financial capabilities of the private entrepreneur. Although it might be argued that certain disjointed phases of the Columbia River's development could possibly be accomplished by private enterprise, it is doubtful that the concurrent and important phases of the development of the river for irrigation and agriculture, navigation, and commerce all could be accomplished under ordinary methods of private financing. The Federal government, acting for its people, can ascribe to a multipurpose development such allocations of cost as it deems are in the public interest, though the possible dollar and cents value may be intangible for any given number of years of development. In a sense, therefore, the Federal government, assuming the responsibilities of risk capital, has visualized needed development of new forces and resources in the region in advance of their actual materialization. The construction of public highways offers an apt parallel--these roads are constructed in terms of possible future traffic and possible future public advantages before the actual need arises.

The multipurpose development of the Columbia, therefore, cannot be looked upon purely from the point of view of power sales per se; power is also a "financial springboard" for other uses of the river's waters, the advantages of which could not be otherwise reached economically. Grand Coulee is an example of multipurpose development, where irrigation is the principal objective and where power furnishes a reasonable means for providing a byproduct source of capital income which will lessen the burden on the irrigation phases of the development. Similarly, at Bonneville Dam and subsequent dams to be constructed on the Columbia River, there are navigation benefits for which the dams by themselves could provide little or no amortizing revenues if it were not for their power potentialities.

In the case of Grand Coulee Dam, the irrigation benefits can be very clearly visualized today; but the navigation benefits of Bonneville and other dams to be constructed may not yet seem apparent. There has been criticism, at times, that to date no large volume of traffic has passed through the locks of Bonneville Dam. This is an error, as shown by a comparison of tonnage movements. In 1930, prior

to Bonneville's construction, about 80,000 tons passed through Cascade Locks. In 1941, the tonnage through Bonneville Dam's locks was in excess of 900,000.1/ This tremendous increase has occurred in spite of the fact that Bonneville is but the first step of a navigation development on the Columbia River which Bonneville Dam alone cannot provide completely. The markets of the Inland Empire to be reached by river commerce only touch Bonneville Dam at the very lowest extremity of their fringes. The natural obstacles of Celilo Falls, John Day, and Umatilla Rapids, to mention but a few, must be overcome as part of a long-range plan before the full navigation advantages of Bonneville begin to be effective.

The importance of both irrigation and navigation phases cannot be over emphasized; free flow of water-borne commerce, particularly as an extension to tidewater navigation, can become an important factor in the development of the Inland Empire with its huge agricultural and mineral wealth. Irrigation will provide some of the additional lands which a more fully integrated regional industrial structure will demand in future years.

The place of power in industry, the home, and on the farm has been so widely discussed in recent years that its fundamentals need no longer be examined. In a very real sense, certain of the deficiencies of the region's economy have been partially met by the establishment of such key basic electro industries as those producing aluminum, magnesium, ferro-alloys, calcium carbide, and other chemicals and metals. What escapes perhaps the minds of most is that, even if the structure of basic industries in the Pacific Northwest were completely filled out, only a start would have been made toward stabilizing the regional economy. What is needed in the filling out of the industrial structure from raw-materials extraction, through processing, to final fabrication into useful articles suitable for distribution and consumption. Efforts to diversify the industrial structure have so far only resulted in multiplying the types of raw-materials extraction; the region still ships its material resources unprocessed, in the form of lumber and agricultural products, and its hydroelectric power resources in the form of nonlabor-using pigs of aluminum and magnesium, cans of calcium carbide, cars full of ferro-chrome. We have partially enlarged the shallow base of our economy. We have deepened it.

However, impatience is perhaps not justified; obviously in the space of five short years only a start can be made. As a matter of fact, the cataclysmic impact of the war has spurred on regional development beyond the wildest expectations of the past. The emphasis of this development is again following a traditional Pacific Northwest approach of overspecialization (as in this case, in the production of pig aluminum and magnesium). The proportion of power being utilized by the so-called light-metals industries overshadows, in every respect, the amounts sold for the production of calcium carbide, chlorates, and ferro-alloys. What is needed to provide a further basis for an industrial empire is the establishment of initial ferrous-metals capacity, and plants for the production of important primary chemicals such as the acids and the alkalies. With these additions, progress could be made rapidly in the establishment of linked industries, starting

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1/ U. S. War Department, Annual Report of the Chief of Engineers, part 2.

with raw materials and ending with manufactured articles. The interdependence of one industrial group upon the other ultimately would form a system of enterprises that would not suffer from problems of economic isolation.

Continuous effort is still being made to provide these basic additional industries; but it is not too early to begin the active consideration and the promotion of secondary industries to make immediate use of our aluminum and magnesium, with perhaps industrial units to utilize calcium carbide and acetylene derivatives. The problems of securing and justifying basic industries are, by comparison, relatively simple ones; but the problems of secondary industries are highly complicated. The diversification of approaches places the magnitude of the problem beyond the reach of any single group.

The question of markets for secondary manufacturing enterprises is one which, because of the present war, can be approached only on the basis of vague assumptions likely to be completely changed by national and world policies to be established upon the termination of the conflict. It is not clear, for example, what products could be manufactured in the region which, with economies to be derived from low-priced power and other natural advantages of the region, could compete on West Coast, national, and world markets. For one thing, the structure of western freight rates has grown like "Topsy" and reflects strongly the protective attitudes of established industry in eastern parts of the country. In most cases they are tariff barriers to maintain the dominant position of eastern manufacturing plants, not promotional aids, for the development of new western industry.

However, assuming status quo, it seems that the Pacific Northwest's soundest manufacturing opportunities will be in the production of high-grade materials and articles in which freight costs can be absorbed. If, on the other hand, world trade conditions are such that new markets can be opened in the Far East, then the Pacific Northwest, as well as the entire West Coast, should realize an opportunity to become a manufacturing center, rather than merely a port of shipment for goods transported across the country from eastern manufacturing plants. This situation, of course, raises questions of national industrial policy which, under present circumstances, must be met on a "catch as catch can" basis in the best traditions of free competitive enterprise.

In this respect, a potent competitive factor may arise in the ultimate financial structure of the basic-raw-materials producing plants which have settled in the region during the past five years, the overwhelming majority of which have been constructed through the medium of public financing.[1/] These electro-industry plants are new plants and, in most cases, are being amortized at extremely high rates, thus providing opportunities for the majority to be entirely debt free at the end of the war. Being new plants, the factor of obsolescence will be in their favor. It is evident how important will be government policy in the termination of operating contracts and leases for these publicly financed plants. All other

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1/ The total estimated public investment in Northwest electro plants is on the order of $130,000,000. Private financing has totaled $27,000,000.

things being equal, it is quite probable that established industry will look to these western plants with a slightly jaundiced eye. It is conceivable, therefore, that pressures will be exerted to place these western plants in "cold storage" so as to avoid their being used competitively, at least until such time as industry desires to operate them. This subject of government policy toward "war financed" plants is one of vital concern to the West.

At the same time, the creation of secondary industries and the building of markets for the products of these secondary industries might well act as an opposing force to the inertia factors described above. It may be that western capital itself may develop and seize these opportunities. In other words, as long as the basic electro plants in the region have no outlets, there can be but slight hope for their survival unless economies of production and the advantages of low obsolescence factors outweigh the natural opposition of established industry. It may be that the more enlightened sectors of established industry can also join with the West in building a more decentralized national industrial pattern.

The extremely low power costs of the Federal power system in the Northwest, plus the fact that the 15,000,000 kilowatts of potential hydro power have barely been touched, are arguments, the cogency of which cannot be disclaimed. When military censorship is relieved at the termination of the present war, it will be quite evident that electro industries have become among the most important of the nation. The trend toward the greater utilization of light metals, plastics, and specialized steel alloys all place a premium on the availability of large blocks of low-priced firm power. The Northwest stands foremost in the list of power-producing regions in the nations with its approximate 45 per cent of the national potential of hydroelectric power. Yet, again, it is necessary to point out that basic electro industries are notoriously poor employers of labor--that, again, the necessity for building secondary industries is of paramount importance to the establishment of economic security in the region.

The production of light metals and of certain basic chemicals adds to, rather than detracts from, the primary part which forest industries play in the regional economy. Although the timber resources of the region are being depleted at an alarming rate, because of war necessities, there is an increasing consciousness, particularly by government agencies and the larger operating groups of the industry, of the waste inherent in present cropping and utilization practices. The extraction of alcohols, lignins, and chemicals from wood wastes are postwar projects which many companies have been entertaining for some time. Together with the recognition of the need for sustained yield and selective logging, the industrial utilization of sulphite waste liquors, mill wastes, and forest slash can deepen the roots of the forest-products industries. Electro industries can provide some of the basic chemicals needed for the treatment of these various forest products.

An important direct relation of forest use to power use lies in the utilization of forest wastes for the production of charcoal needed as a reducing agent in the various electrometallurgical industries of the region. The market for charcoal, which expanding electro industries demand, will permit the treatment of wood for values, such as the various wood tars and oils, which otherwise would be beyond economic reach. In other wood-products industries also, power can be

important. For example, high frequency electric power is being used in diathermic treatment of plywood and other types of veneers.

Assuming that the progress of chemurgy will be such as to increase the value per cubic foot of the harvested tree, there will arise the problem of replacing the power now provided through the use of sawdust, slab, and hogged wood as fuel. Since the coals of the Northwest must be considered as a supplemental domestic source of fuel rather than a primary one, we may have to turn to the inexhaustible flow of our rivers for displacement energy. The problem of fuels in the region is a perennial one which will grow with the passage of time. It is not prophetic to indicate that more and more stress will be placed upon petroleum products for use in internal combustion engines, for lubrication, and for their valuable chemical contents. As in the case of present waste wood utilization in the region, it may become necessary and desirable to substitute power for the fuel uses of these materials. Electric space heating--the heating of living home space by electrical means--has suffered principally from factors of obsolescence, not only in the home but in our power distribution systems. We must face the time when heating with electricity will become a necessity rather than a luxury. This in itself may well necessitate a gradual but relentless modernization of electric distribution systems in the region. It will probably require raising the thermal efficiencies of our homes by providing a better insulation. Again, the producers of insulating materials such as glass fiber or rock wool will call upon electrical power to do its manufacturing job.

The age of electricity has only begun to reach agriculture. Farm consumption, it has been demonstrated in other parts of the continent, can reach a much higher level than the present average. For example, the drying of forage crops by power, which has been practiced in Scandinavian countries for quite some time, is but in its infancy. The treatment of crops through the use of electric heat for the production of dehydrated foods has likewise barely begun. Agricultural products may be visualized as entering a new phase of industrial utilization. With the growing depletion of mineral resources in the world, agricultural crops may become increasingly important as sources of industrial raw materials. This, in turn, will necessitate the production of chemical fertilizer on a scale hitherto undreamed of. The world's largest phosphate deposits in Idaho, when processed with power and mixed with nitrates, also produced with power, form another link in a chain.

It is, of course, human to anticipate changes in regional economy with a rapidity which in practice does not occur. Our measure of time too often relates to our own uncertainties. Even so, there is little doubt that the full development of the Columbia River will occur at a much more rapid rate than has ever been anticipated by those who first dreamed of it. This development alone cannot provide the job security which is the concern of all in the region. It is only a potent factor which, if carefully seized upon by those of vision and courage, can bring about the collateral industrial, agricultural, and domestic activities that do provide a market for manpower.

THE COST OF LIVING INDEX

The most serious problem now facing the "home front" is that of inflation. Inflation is simply a rise in the general price level or, stated another way, a reduction in purchasing power of money. At the present time, the most widely discussed indicator of changes in the general price level is the Cost of Living Index computed by the Bureau of Labor Statistics.

This index has certain definite limitations which should be kept in mind when interpreting it. It measures only changes in the cost of goods and retail services used by families of wage earners and lower salaried workers in representative cities. In other words, it does not attempt to measure changes in the cost of living of the general public, farmers, professional men, etc. This is a very important limitation.

The index covers changes for about 200 commodities and services. These include such items as food, clothing, fuel, electricity, ice, and house furnishings. Counting all the different grades and qualities, about 400 different kinds of prices are collected. In addition, figures on changes in rents are obtained for approximately 41,600 dwellings. Altogether, about 145,000 price quotations are used. The 200 commodities and services are considered to be representative of every important type of family expenditure in the economic group to which the index applies. Therefore, the Bureau of Labor Statistics believes it unnecessary to price all goods and services that a typical worker's family buys. For example, prices reported on the 11 fresh fruits and vegetables used in the index generally reflect the price movements of all fresh fruits and vegetables.

The goods and services selected for inclusion in the index are those which are most important in the actual buying of wage earners and clerical workers as shown by surveys of expenditures of 14,500 families conducted by the Bureau in 1934-1936. Each of the items is given the proper emphasis in the index by the use of weights. These weights are altered to take account of shortages and rationing.

Information on prices and price changes is obtained from stores and service agencies widely patronized by wage earners and lower salaried workers. The "black markets" which sell in violation of OPA price ceilings are not visited by the Bureau representatives.

The index is computed in such a way that the average prices for the years 1935-1939 equal 100. It is based on food prices obtained monthly in 51 large cities, and on prices other than food secured monthly in 21 cities and quarterly in 13 others. Special quarterly cost-of-living surveys are also made for certain smaller cities.

The Bureau of Labor Statistics computes the index for each city separately and also as a combined national series. The figures for the individual cities can be used to learn whether the cost of living is rising more rapidly in one community than in another. However, they cannot be used to tell whether it costs more to live in one city than in another. This is because the figure 100 indicates the dollar cost for each community separately for 1935-1939 and there is no way of telling whether 100 for Chicago is higher or lower than 100 for New York.

Cost of Living Index readings for the United States and Portland covering the period since June 15, 1940, are shown below. The food and rent constituents of the index are included.

Cost of Living Index, United States

Date	All Items	Food	Rent
1940			
June 15	100.5	98.3	104.6
September 15	100.4	97.2	104.7
December 15	100.7	97.3	104.9
1941			
March 15	101.2	98.4	105.1
June 15	104.6	105.9	105.8
September 15	108.1	110.8	106.8
December 15	110.5	113.1	108.2
1942			
March 15	114.3	118.6	108.9
June 15	116.4	123.2	108.5
September 15	117.8	126.6	108.0
December 15	120.4	132.7	108.0
1943			
March 15	122.8	137.4	108.0
April 20	124.1	140.6	108.0

Cost of Living Index, Portland, Oregon

Date	All Items	Food	Rent
1940			
June 15	100.7	99.8	106.5
September 15	101.5	100.5	106.7
December 15	101.8	100.7	107.0
1941			
March 15	102.7	102.8	107.2
June 15	106.2	110.2	108.8
September 15	111.0	119.9	110.5
December 15	113.7	121.3	112.6
1942			
March 15	119.1	129.6	114.4
June 15	122.1	134.6	117.6
September 15	124.8	141.2	115.1
December 15	126.8	145.9	115.2
1943			
March 15	128.7	148.5	115.2
April 20	(1)	150.3	(1)

(1) Not available.

OREGON BUSINESS - MAY

General Business. The tendency for business expansion to taper off, first mentioned in last month's issue of the Oregon Business Review, became more pronounced during May. Bank debits, a highly regarded indicator of general business conditions, showed a moderate recession for May as compared to April. Furthermore, the May total of bank debits was only a third greater than for the same month a year earlier, whereas April's figures were a half greater than those for April, 1942. It will be noted from the following table that the least decline occurred in the Portland marketing area.

	Compared with April 1943	May 1942
Oregon	- 10.8%	+32.7%
Portland	- 8.9	+47.2
Lower Willamette Valley	-15.0	+18.3
Upper Willamette Valley	-14.7	+23.5
North Oregon Coast	-14.3	+46.8
Douglas - Coos Bay	-16.4	+29.6
Southern Oregon	-11.3	+ 3.1
Upper Columbia River	-40.5	-12.0
Pendleton	- 9.1	+23.6
Central Oregon	-13.4	+29.1
Klamath Falls - Lakeview	-15.0	- 1.7
Baker - La Grande	-24.4	+ 8.6
Burns - Ontario	-24.6	+17.4

Retail Sales. The May sales of independent Oregon retailers showed a slight decline over the preceding month and the increase over the same month a year ago was narrowed somewhat. These data confirm the conclusion that Oregon business has, for the time being at least, ceased to expand. Comparisons of sales by types of retailers follow:

	Compared with April 1943	May 1942
Oregon	- 7.2%	+ 27.4%
Department Stores	- 11.7	+ 48.3
Food Stores	+ 1.5	+ 23.7
Eating and Drinking Places	+ 4.7	+ 51.9
Drug Stores	+ 9.5	+ 36.6
Apparel Stores	- 9.5	+ 48.2
Motor Vehicle Dealers	-10.8	- 8.2
Furniture - Household - Radio Group	-20.5	+ 4.6
Lumber - Building - Hardware Group	-16.8	+ 7.1

The percentage change by marketing areas is shown in the table below.

	Compared with April 1943	Compared with May 1943
Oregon	− 7.2%	+ 27.4%
Portland	−11.1	+ 37.3
Lower Willamette Valley	−13.8	+ 5.7
Upper Willamette Valley	+ 1.2	+ 22.6
North Oregon Coast	+10.8	+23.0
Douglas - Coos Bay	− 2.7	+22.3
Southern Oregon	+ 2.3	+13.5
Upper Columbia River and Pendleton	− 6.5	+15.0
Central Oregon and Klamath Falls - Lakeview	+ 3.3	+16.5
Baker - La Grande and Burns - Ontario	− 5.2	+25.4

Building Permits. In only ten of the forty-seven Oregon cities reporting building permits issued, was construction undertaken on new residences. Of the $803,360 state total, $770,320 was in Portland. The largest amount of new residential construction elsewhere in the state was five houses in Corvallis, estimated to cost a total of $20,000. The situation in non-residential construction was much the same. The largest item outside of Portland was a $6,000 project in McMinnville. Additions, alterations, and repairs were 90.1 per cent greater than the preceding month and 127.3 per cent greater than in May, 1942.

Lumber Production. Lumber production continued to increase during May. In Western Oregon and Western Washington May production was 2.5 per cent greater than in April, but 6.7 per cent less than in May, 1942. The production of pine lumber in Eastern Oregon and Eastern Washington was 25.0 per cent greater in May than in April, and 1.6 per cent greater than in the same month a year ago.

The West Coast Lumbermen's Association made the following comments about developments in Western Oregon and Western Washington: "Due to our entry into the offensive phase of the war, the demand on the industry is now for a greater variety of materials for battle service instead of the construction lumber which formerly went into cantonments, powder factories, warehouses and similar structures. Vast quantities of box and crating lumber will be required to carry munitions overseas, through beach landings and exposed dumps. Many more landing barges and special types of boats will need West Coast lumber until the war takes a decisive turn. There is yet no prospect of decline in total volume of lumber required for war. . . . . The bottleneck of lumber production remains in log supply, and the great over-all problem still is shortage of manpower in the woods. The industry is engaged in a continuing struggle to get back to the production volume of 1942, which is again demanded by the war agencies for 1943."

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